

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

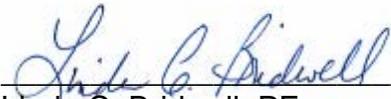
ELECTRONIC APPLICATION OF GARRISON-	)	
QUINCY-KY-O-HEIGHTS WATER DISTRICT	)	CASE NO.
FOR A RATE ADJUSTMENT PURSUANT TO	)	2021-00094
807 KAR 5:076	)	

NOTICE OF FILING OF COMMISSION STAFF REPORT

Notice is hereby given that, in accordance with the Commission’s Order of June 16, 2021, the attached report containing the findings of Commission Staff (Staff) regarding the Applicant’s proposed rate adjustment has been filed in the record of the above-styled proceeding. Pursuant to the Commission’s June 16, 2021 Order, Garrison-Quincy-Ky-O-Heights Water District (Garrison District) is required to file comments regarding the findings of Staff no later than 14 days from the date of this report. Pursuant to the Commission’s Orders in Case No. 2020-00085,<sup>1</sup> issued March 16, 2020, and March 24, 2020, Garrison District SHALL NOT FILE the original paper copy at this time, but rather shall file original paper copies within 30 days of the lifting of the current state of emergency. Due to COVID-19, Staff is unable to physically sign this report. When Staff is able to sign this report, a notice of filing with the executed signature page will be made in this case docket.

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<sup>1</sup> Case No. 2020-00085, *Electronic Emergency Docket Related to the Novel Coronavirus COVID-19* (Ky. PSC Mar. 16, 2020), Order at 5–6. Case No. 2020-00085, *Electronic Emergency Docket Related to the Novel Coronavirus COVID-19* (Ky. PSC Mar. 24, 2020), Order at 1–3.



Linda C. Bridwell, PE  
Executive Director  
Public Service Commission  
P.O. Box 615  
Frankfort, KY 40602

DATED JUL 13 2021

cc: Parties of Record

Case No. 2021-00094

## STAFF REPORT

ON

### GARRISON-QUINCY-KY-O-HEIGHTS WATER DISTRICT

Garrison Quincy-Ky-O-Heights Water District (Garrison District), a water district organized pursuant to KRS Chapter 74, provides water service to approximately 1,067 residential, commercial, and industrial customers in Lewis County, Kentucky.<sup>1</sup> Garrison District's sewer division owns and operates sewage facilities in Lewis County, Kentucky, that serve approximately 304 residential and commercial customers.<sup>2</sup>

On March 2, 2021, Garrison District tendered its application to the Commission requesting to adjust its water and sewer rates pursuant to 807 KAR 5:076, and it was accepted as filed. To ensure the orderly review of the application, the Commission established a procedural schedule by Order dated March 11, 2021. On June 16, 2021, the Commission, on its own motion, amended its March 11, 2021 Order to allow Staff until July 13, 2021, to review Garrison District's case and to complete this report.

To comply with the requirements of 807 KAR 5:076, Section 9, Garrison District based its requested rates on a historic test period that coincides with the reporting period shown in its most recent Annual Reports on file with the Commission: the calendar year ended December 31, 2019.

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<sup>1</sup> *Annual Report of Garrison Quincy-Ky-O-Heights Water District Water Division to the Public Service Commission for the Calendar Year Ended December 31, 2019 (2019 Water Division Annual Report) at 12 and 49.*

<sup>2</sup> *Annual Report of Garrison Quincy-Ky-O-Heights Water District Sewer Division to the Public Service Commission for the Calendar Year Ended December 31, 2019 (2019 Sewer Division Annual Report) at 9 and 25.*

Using the Debt Service Coverage (DSC) method and its pro forma test-year operations, Garrison District determined that its water division could justify a revenue increase of \$96,267, or 18.53 percent, as shown in the table below.<sup>3</sup> The rates requested by Garrison District would increase the monthly bill of a typical residential customer using 3,000 gallons per month by \$5.28, from \$28.55 to \$33.83, or approximately 18.50 percent.<sup>4</sup>

<u>Revenue Requirement - Water Division</u>	
Pro Forma Operating Expenses as Filed	\$ 561,936
Plus: Average Annual Debt Service	91,852
Debt Service Coverage Requirement	<u>18,370</u>
Overall Revenue Requirement	672,158
Less: Forfeited Discounts	(14,707)
Miscellaneous Service Revenues	(5,242)
Other Water Revenues	(8,203)
Other Income - Phase II & III Surcharges	(22,944)
Interest Income	<u>(5,260)</u>
Revenue Required from Water Sales	615,802
Less: Normalized Revenues from Water Sales	<u>(519,535)</u>
Required Revenue Increase/(Decrease)	<u>\$ 96,267</u>
Percentage Increase	<u>18.53%</u>

Using the DSC method and its pro forma test-year operations, Garrison District determined that its sewer division could justify a revenue increase of \$132,411, or 88.33 percent, as shown in the table below.<sup>5</sup> The rates requested by Garrison District would

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<sup>3</sup> Application, Attachment 4, Revenue Requirements. There is a mathematical error in Garrison District's pro forma Income Statement for its water division. The correct pro forma operating expenses for the water division is \$577,747, which is \$15,811 greater than the amount reported. Correcting for this error would increase the requested revenue requirement by \$15,811.

<sup>4</sup> *Id.*, Attachment 1, Customer Notice.

<sup>5</sup> Application, Attachment 4, Revenue Requirements.

increase the monthly bill of a typical residential customer using 3,000 gallons per month by \$11.55, from \$33.00 to \$44.55, or approximately 35.00 percent.<sup>6</sup>

<u>Revenue Requirement - Sewer Division</u>	
Pro Forma Operating Expenses	\$ 245,958
Plus: Average Annual Debt Service	30,849
Debt Service Coverage Requirement	<u>6,170</u>
Overall Revenue Requirement	282,977
Less: Other Operating Revenues	<u>(660)</u>
Revenue Required from Water Sales	282,317
Less: Normalized Revenues from Water Sales	(149,246)
Error - Other Sewer Revenues	<u>(660)</u>
Required Revenue Increase/(Decrease)	<u>\$ 132,411</u>
Percentage Increase	<u>88.33%</u>

To determine the reasonableness of the water and sewer rates requested by Garrison District, Staff performed a limited financial review of Garrison District’s test-year operations. The scope of Staff’s review was limited to determining whether operations reported for the test year were representative of normal operations. Known and measurable changes to test-year operations were identified and adjustments were made when their effects were deemed material. Insignificant and immaterial discrepancies were not necessarily pursued or addressed.

Staff’s findings are summarized in this report. Mark Frost reviewed the calculation of Garrison District’s Overall Revenue Requirement. Liz Stefanski and Eddie Beavers reviewed Garrison District’s reported revenues and rate design.

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<sup>6</sup> *Id.*, Attachment 1, Customer Notice.

## SUMMARY OF FINDINGS

### Water Division

1. Overall Revenue Requirement and Required Revenue Increase. By applying the DSC Method, as generally accepted by the Commission, Staff found the Overall Revenue Requirement for the water division to be \$592,504. A revenue increase of \$22,004, or 4.24 percent, is necessary to generate the Overall Revenue Requirement.

2. Monthly Water Service Rates. In the application, Garrison District proposed to increase its monthly retail water service rates evenly across the board by approximately 18.50 percent, except for the Wholesale Sales Rate.<sup>7</sup> In their response to Commission Staff's First Request for Information (Staff's First Request), Garrison District stated that the Wholesale Sales Rate was not included because, under the current contract, Garrison District purchases water to cover the amount sold to its only wholesale customer and the purchased water price has not changed.<sup>8</sup> Garrison District has not performed a cost of service study (COSS). The Commission has previously found that the allocation of a revenue increase evenly across the board to a utility's rate design is appropriate when there has been no evidence entered into the record demonstrating that this method is unreasonable and in the absence of a COSS. Finding no such evidence in this case, Staff followed the method proposed by Garrison District and allocated the \$22,004 revenue increase across the board to Garrison District's monthly retail water service rates. The retail water service rates set forth in the Appendix A to this report are based upon the total revenue requirement of \$541,370, the total revenue requirement from water

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<sup>7</sup> Application, Attachment 2.

<sup>8</sup> Garrison District's Response to Staff's First Request (filed April 18, 2021), Item 34.

sales. As the wholesale rate is not being increased in this case, the retail water service rates must be calculated to recover the entire revenue requirement from water sales rate. The retail water service rates calculated by Staff will produce sufficient revenues from water sales to recover the \$541,370 revenue required from rates, an approximate 4.48 percent increase. The rates calculated by Staff would increase the monthly bill of a typical residential customer using 3,000 gallons per month from \$28.55 to \$29.83, an increase of \$1.28, or approximately 4.48 percent.<sup>9</sup>

3. Nonrecurring Charges. Following the Commission's recent decisions,<sup>10</sup> Staff has reviewed Garrison District's Nonrecurring Charges for the water division. The Commission found that as district personnel are currently paid during normal business hours, estimated labor costs previously included in determining the amount of Nonrecurring Charges should be eliminated from the charges. In response to Staff's Third Request for Information (Staff's Third Request), Garrison District provided updated cost justification information for the Nonrecurring Charges that are listed in its tariff.<sup>11</sup> Staff reviewed the cost justification information provided by Garrison District and have adjusted these charges by removing Field Labor Costs and Office/Clerical Labor Costs from those

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<sup>9</sup> *Id.*, Attachment 1, Customer Notice.

<sup>10</sup> Case No. 2020-00141, *Electronic Application of Hyden-Leslie County Water District for an Alternative Rate Adjustment* (Ky. PSC Nov. 6, 2020), Case No. 2020-00167, *Electronic Application of Ohio County Water District for an Alternative Rate Adjustment* (Ky. PSC Dec. 3, 2020), Case No. 2020-00196, *Electronic Application of West Daviess County Water District for an Alternative Rate Adjustment* (Ky. PSC Dec. 30, 2020), and Case No. 2020-00195, *Electronic Application of Southeast Daviess County Water District for an Alternative Rate Adjustment* (Ky. PSC Dec. 30, 2020).

<sup>11</sup> Garrison District's Response to Staff's Third Request for Information (filed June 8, 2021), Item 1.

charges that occur during normal business hours.<sup>12</sup> Such adjustments result in the following revised Nonrecurring Charges:

<u>Nonrecurring Charge</u>	<u>Charge</u>
Connection Charges	\$ 11.00
Connection Charges After Hours	41.00
Field Collection Charges	11.00
Late Payment Penalty	7.00
Meter test	36.00
Reconnection charges	22.00
Reconnection After hours	52.00
Seasonal Reconnection charge	11.00
Returned Checks	23.00
Service Call	11.00
Service Call after hours	41.00
Tap-On Fee	\$1,325.00

Sewer Division

1. Overall Revenue Requirement and Required Revenue Increase. By applying the DSC Method, as generally accepted by the Commission, Staff found the Overall Revenue Requirement for the sewer division to be \$336,156 and a revenue increase of \$180,036, or 120.63 percent, is necessary to generate the Overall Revenue Requirement. If Garrison District wishes to request that the Commission approve a revenue increase for its sewer division in the amount calculated by Staff, it should do so in its written response to this report.

2. Monthly Sewer Service Rates. Garrison District proposed to increase all of its monthly wastewater service rates evenly across the board by approximately 35.00 percent.<sup>13</sup> Garrison District has not performed a COSS. As stated above, the Commission has previously found that the allocation of a revenue increase evenly across

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<sup>12</sup> *Id.*

<sup>13</sup> Application, Attachment 2.

the board to a utility's rate design is appropriate when there has been no evidence entered into the record demonstrating that this method is unreasonable and in the absence of a COSS. Finding no such evidence in this case, Staff followed the method proposed by Garrison District and allocated the \$180,036 revenue increase across the board to Garrison District's monthly wastewater service rates. The rates set forth in the Appendix B to this report are based upon the revenue requirement, as calculated by Staff, and will produce sufficient revenues from wastewater sales to recover the \$329,282 revenue required from rates, an approximate 120.63 percent increase.

3. Sewer Division-Nonrecurring Charges. Staff reviewed the cost justification information provided by Garrison District, and has adjusted these charges by removing Field Labor Costs and Office/Clerical Labor Costs.<sup>14</sup> Such adjustments result in the following revised nonrecurring charges:

<u>Nonrecurring Charge</u>	<u>Charge</u>
Connection Charges	\$ 7.00
Connection Charges After Hours	\$38.00
Field Collection Charges	\$ 6.00
Late Payment Penalty	\$ 7.00
Reconnection charges	\$10.00
Reconnection After hours	\$41.00
Seasonal Reconnection Charge	\$11.00
Returned Checks	\$23.00
Service Call	\$ 7.00
Service Call after hours	\$38.00
Tap Fee	\$4,725.00

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<sup>14</sup> *Id.*

## Allocation and Assignment of Costs Between the Divisions

In Case No. 2013-00350,<sup>15</sup> Staff was required to make numerous ratemaking adjustments to properly allocate test-year transactions that were shared by the water and sewer divisions.<sup>16</sup> Staff instructed Garrison District to adopt reasonable allocation factors and methods that should be formerly approved by its board of commissioners and included in Garrison District's written accounting policies and procedures.<sup>17</sup> Staff explained that absent the recommended changes, subsidization between the water and sewer divisions may occur and go undetected.<sup>18</sup>

Garrison District did not follow Staff's directions regarding adoption of reasonable cost allocation factors and methods. In Case No. 2013-00350, Staff noted that its cost allocation adjustments would have resulted in a rate increase for Garrison District's sewer division of 88.26 percent.<sup>19</sup> In this instant case, Garrison District requested a rate increase for its sewer division of 88.30 percent, but after Staff corrected Garrison District's cost allocations, the recommended sewer rate increase is now 120.63 percent. This suggests that the 763 customers that receive water service only are subsidizing the cost of providing sewer service to the 304 customers that receive both services.<sup>20</sup>

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<sup>15</sup> Case No. 2013-00350, *Alternative Rate Adjustment Filing Garrison-Quincy -Ky-O-Heights Water District* (Ky. PSC Feb. 19, 2014).

<sup>16</sup> *Id.*

<sup>17</sup> *Id.* at 6–7.

<sup>18</sup> *Id.* at 7.

<sup>19</sup> Case No. 2012-00350, *Alternative Rate Adjustment Filing Garrison-Quincy -Ky-O-Heights Water District* (Ky. PSC Jan. 17, 2014), Staff Report at 27.

<sup>20</sup> Garrison District's Response to Commission Staff's Second Request for Information (filed May 19, 2021), Item 13. 1,067 (Total Water Customers) – 304 (Customers Receiving Water and Sewer Service) = 763 (Water Only Customers).

To prevent the possibility of future cross-subsidization between the divisions, Staff recommends that the Commission direct Garrison District to make the necessary revisions to its accounting procedures and internal controls so that proper assignment and allocation of revenues and expenses are recorded in its books of original entry in all future reporting periods. Staff also recommends that the Commission require Garrison District to submit in writing its agreement to the above requirement, and to set a deadline for Garrison District to submit its revised accounting procedures and internal controls for the Commission to review.

### PRO FORMA OPERATING STATEMENT

#### Water Division

The Pro Forma Operating Statement for the test year ended December 31, 2019, as determined by Staff, appears below for Garrison District's water division.

	Test Year Operations	Staff Pro Forma Adjustments	(Ref.)	Staff Pro Forma Operations
<b>Operating Revenues</b>				
Sales of Water	\$ 543,541	\$ (63,636)	A.	
		39,461	B.	\$ 519,366
<b>Other Water Revenue</b>				
Forfeited Discounts		19,670	A.	19,670
Miscellaneous Service Revenues		3,260	A.	3,260
<b>Total Operating Revenues</b>	<b>543,541</b>	<b>(1,245)</b>		<b>542,296</b>
<b>Operating Expenses</b>				
<b>Operation and Maintenance Expenses</b>				
Salaries and Wages - Employees	191,934	(50,066)	C.	141,868
Tap-on Fees		(13,250)	D.	(13,250)
Salaries and Wages - Commissioners	8,100	(1,796)	E.	6,304
Employee Pensions and Benefits	77,825	(25,724)	F.	52,101
Purchased Water	42,506	(10,111)	G.	32,395
Purchased Power for Pumping	36,766	(8,746)	G.	28,020
Chemicals	13,705	(3,260)	G.	10,445
Materials and Supplies	23,603			23,603
Contractual Services - Accounting	20,877	(4,628)	E.	16,249
Contractual Services - Water Testing	3,443			
Contractual Services - Other	3,525			
Transportation Expenses	4,494	(736)	E.	3,758
Insurance - General Liability & Other	10,216	(2,195)	H.	8,021
Insurance - Workers Compensation	4,028	(1,442)	I.	2,586
Misc. Expense	129,858		J.	
CERS		(81,060)		
Purchased Power Office		(948)		
Materials and Supplies, Office		(1,732)		
Dues and Subscriptions		(481)		
Continuing Education		(674)		44,963
<b>Total Operation and Maintenance Expenses</b>	<b>570,880</b>	<b>(206,849)</b>		<b>357,063</b>
Depreciation	101,505	13,124	K.	
		(263)	E.	114,366
Taxes Other Than Income	20,083	(9,230)	L.	10,853
<b>Total Operating Expenses</b>	<b>692,468</b>	<b>(203,218)</b>		<b>482,282</b>
<b>Income Available to Service Debt</b>	<b>\$ (148,927)</b>	<b>\$ 201,973</b>		<b>\$ 60,014</b>

(A) Other Water Revenues. In its application, Garrison District made several adjustments to certain Other Operating Revenues and Miscellaneous Service Revenues

to their proper balances.<sup>21</sup> Garrison District reduced Metered Sales to Retail Customers by \$54,403 to reflect the following: (1) miscategorized Bulk Sales in the amount of \$26,251 and Other Water Revenues; (2) Forfeited Discounts in the amount of \$14,707; (3) Miscellaneous Service Revenue in the amount of \$5,242; and (4) Other Water Revenue in the amount of \$8,203.

Staff requested Garrison District provide Cost Justification Sheets to support its Nonrecurring Charges. Using the Cost Justification Sheets, Staff determined that the pro forma Forfeited Discounts (Late Payment Penalties) is \$19,670<sup>22</sup> and the pro forma Miscellaneous Service Revenue is \$3,260<sup>23</sup> as shown in the table below. Staff is reducing Revenues from Water Sales by \$63,636 to eliminate the misclassified Other Operating Revenues, increasing Forfeited Discounts by \$19,670, and increasing Miscellaneous Service Revenues by \$3,260.

	Number of Occurrences	Garrison District Test Year	Pro Forma Adjustments	Pro Forma
Forfeited Discounts:				
Late Payment Penalties	2,810	\$ 56,200	\$ (36,530)	\$ 19,670
Miscellaneous Service Revenues:				
Connection Charges	116	2,552	(1,276)	1,276
Field Collection Charges	74	2,220	(1,406)	814
Meter Relocation Charges	2		0	
Reconnection Charges	49	1,960	(882)	1,078
Returned Checks	4	104	(12)	92
Meter Relocation Charges		600	(600)	0
Total Miscellaneous Service Revenues		7,436	(4,176)	3,260
Total Other Operating Revenues		\$ 63,636	\$ (40,706)	\$ 22,930

<sup>21</sup> Application, Attachment 4, References, Adjustment A.

<sup>22</sup> Late Payment Penalty Charges, aka Forfeited Discounts, 2,810 occurrences multiplied by the revised charge of \$7.00 equals the adjusted amount of \$19,270.

<sup>23</sup> Total Adjusted Charges for Connection Charges of \$1,276, Field Collection Charges of \$814, Reconnection Charges of \$1,078 and Returned Check charges of \$92 equals \$3,260.

(B) Billing Analysis Adjustment. Garrison District provided a billing analysis listing the water usage and water sales revenue for the 12-month test year in its application. Garrison District's Summary of Billing Analysis included Reported Bulk Sales of \$2,999, which is based on the 2019 Water Division Annual Report. Staff requested additional details about how this amount was calculated.<sup>24</sup> Garrison District explained that the bulk water receipts were overstated by 1,060 gallons as the amount listed in the 2019 Water Division Annual Report was a combination of revenue and sales tax. Staff calculated the changes within a normalized billing analysis, which determined that \$519,366 for all retail customers is an accurate representation of the normalized test-year revenue from water sales. Staff is increasing Revenue from Water Sales by \$39,461.

(C) Employee Salaries and Wages. Garrison District's total test-year Employee Salaries and Wages expense was \$244,626; the water division reported \$191,934 and the sewer division reported \$52,692. Garrison District proposed to increase the water division's test-year Employee Salaries and Wages expense by \$695 for a pro forma Employee Salaries and Wages expense of \$192,629.<sup>25</sup> Garrison District explained that during and after the test year, there were changes to its staff and to its employee wage rates.<sup>26</sup> Based on the number of hours each employee worked in the test year and the current wage rates, Garrison District estimated that total Employee Salaries and Wages

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<sup>24</sup> Garrison District's Response to Staff's Second Request for Information (Staff's Second Request) (filed May 19, 2021), Item 3.

<sup>25</sup> Application, Attachment 4, Schedule of Adjusted Operations, Water Division, Ref. F. \$191,934 (Employee Salaries and Wages expense) + \$695 (Proposed Pro forma Adjustment – Water Division) = \$192,629.

<sup>26</sup> *Id.*, References, Ref. F.

expense would increase by a total of \$885.<sup>27</sup> Garrison District allocated 78.53 percent or \$695 of the estimated Employee Salaries and Wages expense to the water division in proportion to the actual labor expenses reported by Garrison District for each division in the test year.<sup>28</sup>

In the test year, Garrison District allocated 80 percent of its field employee salaries to the water division and 20 percent to the sewer division.<sup>29</sup> The salaries paid to the General Manager and the office staff are 100 percent charged to the water division.<sup>30</sup> The only documentation provided by Garrison District to support its field employee allocations are copies of the employee time cards with hand written notes indicating the allocation percentages.<sup>31</sup> Garrison District claims that the reason its office staff time is only allocated to its water division is because every sewer bill is attached to a water bill and that no real time is used to separate the duties inside the office.<sup>32</sup>

In Case No. 2013-00350, the Commission Staff explained in great detail why it is appropriate to allocate each of Garrison District employees time between the two divisions. Based on the allocation methodologies presented in the 2013 report, 62.41 percent of Garrison District's total Employee Salaries and Wages expense was allocated to the water division and the remaining 37.59 percent was allocated to the sewer

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<sup>27</sup> *Id.*

<sup>28</sup> *Id.*

<sup>29</sup> Garrison District's Response to Staff's First Request (filed Apr. 18, 2021), Item 15.

<sup>30</sup> *Id.*

<sup>31</sup> Garrison's Response to Staff's Second Request (filed May 19, 2021), Item 11.a.

<sup>32</sup> *Id.*, Item 11.b.

division.<sup>33</sup> On January 30, 2014, Garrison District filed its response to Staff's report wherein Garrison District accepted all of Staff's findings. Given the lack of an analysis or study to support Garrison District' position regarding allocations between the sewer and water division and Garrison District's acceptance of the salary allocations used in Case No. 2013-00350, Staff is using the Case No. 2013-00350 allocation methodology as the basis for the allocations in this instant case.

Staff calculated Garrison District's total pro forma salaries of \$220,936 by applying each employee's current pay rate to 2,080 regular work hours and the employee's test-year overtime/compensatory hours. This method accounts for current wage rates and annualizes test-year wages paid to any employee hired during the test year.

	Payment Type	Date Hired	2020 Hourly Wage Rates		Hours Worked 2019			Pro Forma Salaries
			Regular	Overtime	Regular	Overtime	Comp.	
#9 Manager	Salary	01/01/01	\$ 31.73		2,080.00	0.00	0.00	\$ 65,998
#3 Secretary	Hourly	10/17/16	\$ 13.00	\$ 19.50	2,080.00	0.00	23.50	27,498
#5 Accounting	Hourly	04/03/06	\$ 15.50	\$ 23.25	2,080.00	0.00	346.50	40,296
#2 Operator	Hourly	12/04/17	\$ 15.25	\$ 22.88	2,080.00	0.00	8.00	31,903
#6 Operator	Hourly	02/03/20	\$ 13.00	\$ 19.50	2,080.00	0.00	1.00	27,060
#10 Operator	Hourly	05/13/19	\$ 13.50	\$ 20.25	2,080.00	5.00	0.00	28,181
Total Employee Salaries and Wages expense								<u>\$ 220,936</u>

As shown and discussed below, Staff allocated 64.21 percent, or \$141,866, of the pro forma wages to the water division. Staff allocated the remaining 35.79 percent, or \$79,070, to the sewer division.

<sup>33</sup> Case No. 2013-00350, *Alternative Rate Adjustment Filing Garrison-Quincy-KY-O-Heights Water District* (Ky. PSC Jan 17, 2014), Staff Report at 14.

	Pro Forma	Allocated To	
		Water Division	Sewer Division
Office Employees:			
#3 Secretary	\$ 27,498	\$ 21,402	\$ 6,096
#5 Accounting	40,296	31,362	8,934
Field Employees:			
#2 Operator	31,903	17,106	14,797
#6 Operator	27,060	14,510	12,550
#10 Operator	28,181	15,111	13,070
Total Office & Field Employees	154,938	99,491	55,447
General Manager	65,998	42,377	23,621
Pro Forma Employees Salaries	\$ 220,936	\$ 141,868	\$ 79,068
Allocation Percentages	100.00%	64.21%	35.79%

Office Employees. Garrison District has two full-time office employees who perform administrative duties for both divisions. The amount of time these employees dedicate to a division is directly related to the number of customers served by the division. Accordingly, Staff allocated office wages using the number of customer allocation factor.<sup>34</sup> Staff's allocation is shown below.

	Pro Forma	Allocated To	
		Water Division	Sewer Division
Office Employees		77.83%	22.17%
#3 Secretary	\$ 27,498	\$ 21,401	\$ 6,097
#5 Accounting	40,296	\$ 31,361	\$ 8,935

Field Employees. Garrison District employs three full-time employees who operate and maintain the distribution, collection, and treatment facilities of each division. Ideally, these employees would use direct time reporting to directly charge actual time worked to

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	Customer Allocation Factor	
Water Customers	1,067	77.83%
Sewer Customers	304	22.17%
Total Customers	1,371	100.00%

the appropriate division. Absent direct time reporting, Staff is using the field employee allocations from Case No. 2013-00350 updated for the current customer counts.

According to Garrison District, each field employee spends approximately 18 hours per month reading meters, or 10 percent of the time that each field employee works monthly.<sup>35</sup> Because both water revenues and sewer revenues are calculated using meter readings, Staff will split meter reading between the divisions using the number-of-customer allocation factor.

	Case No. 2013-00850			Case No. 2021-00094			Change in Factors
	Customer Allocation Factor	% Meter Reading	% Meter Reading	Customer Allocation Factor	% Meter Reading	% Meter Reading	
Water Customers	1,079	77.46%	7.746%	1,067	77.83%	7.783%	0.04%
Sewer Customers	314	22.54%	2.254%	304	22.17%	2.217%	-0.04%
Total Customers	<u>1,393</u>	<u>100.00%</u>	<u>10.00%</u>	<u>1,371</u>	<u>100.00%</u>	<u>10.00%</u>	<u>0.00%</u>

Adjusting the field employee allocation factors to reflect the current number-of-customers served by each division results in a 53.62 percent<sup>36</sup> allocation to the water division and 46.38 percent<sup>37</sup> to the sewer division.

Using these allocation factors staff allocated field employee labor as shown below.

	Pro Forma	Allocated To	
		Water Division 53.62%	Sewer Division 46.38%
Field Employees:			
#2 Operator	\$ 31,903	\$ 17,106	\$ 14,797
#6 Operator	27,060	14,510	12,550
#10 Operator	28,181	15,111	13,070

<sup>35</sup> Garrison District's Response to Staff's First Request (filed April 18, 2021), Item 7.a.

<sup>36</sup> 53.58% (Water Allocation Case No. 2013-00350) + 0.04% (Shift Customer Factor) = 53.62%.

<sup>37</sup> 46.42% (Sewer Allocation Case No. 2013-00350) - 0.04% (Shift Customer Factor) = 46.38%

General Manager. The General Manager directs and oversees the duties of all employees. Staff allocated the manager's pro forma salary based on the pro forma wage allocations of all other employees as shown below.

	Pro Forma	Allocated To	
		Water Division	Sewer Division
Total Office & Field Employees	154,938	99,489	55,449
Allocation Factors	100.00%	64.21%	35.79%
General Manager	65,998	42,377	23,621

(D) Tap-on Fees. Garrison District noted that during the test year, labor and materials costs for new meter installations were incorrectly recorded as operating expenses.<sup>38</sup> Garrison District explained that these expenditures are considered capital improvements that should have been depreciated rather than expensed.<sup>39</sup> Garrison District proposes to substitute the \$4,800 it collected in tap-on fees for the actual costs that were incurred for meter installations.<sup>40</sup> Garrison District reduced Employee Salaries and Wages expense by \$1,440, which is 30 percent of the total tap-on fees collected and reduced Materials and Supplies expense by \$3,360 the remaining 70 percent.<sup>41</sup>

In response to Staff's Third Request, Garrison District increased its tap-on fees for the water division from \$600 to \$1,325 to reflect the current cost to install a new meter.<sup>42</sup> In the test-year, Garrison District installed 10 new meters at a cost of \$13,250.<sup>43</sup> If Staff

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<sup>38</sup> Application, Attachment 4, References, Ref. E.

<sup>39</sup> *Id.*

<sup>40</sup> *Id.*

<sup>41</sup> *Id.*, Schedule of Adjusted Operations, Sewer Division, Ref. E and References, Ref. E.

<sup>42</sup> Garrison District's Responses to Staff's Third Request (filed June 8, 2021), Item 1.m.

<sup>43</sup> \$1,325 (New Tap-on Fee) x 10 (Meters Installed in Test Year) = \$13,250.

were using a COSS to establish the rates for the water division, the allocation of the tap-on fees to the appropriate expense accounts would be important. However, Staff is using an across the board increase to establish the water division's rates and is not using a COSS. Operating expenses are accordingly being reduced \$13,250.

(E) Allocation of Shared Expenses. According to Garrison District, the total amounts for certain office expenses were reported in the water division only.<sup>44</sup> Garrison District proposed to allocate these expenses between water and sewer divisions in proportion to the number of customers served by each division.<sup>45</sup> Garrison District's proposed cost allocation results in a deduction to the Miscellaneous expense of the water division of \$2,491.<sup>46</sup>

Staff discovered that the following test-year expenses benefited both divisions, but were not allocated between the divisions. Staff allocated these expenses using the number of customer allocation factor as shown below.<sup>47</sup>

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<sup>44</sup> Application, Attachment 4, References, Ref. K.

<sup>45</sup> *Id.*

<sup>46</sup> *Id.*, Schedule of Adjusted Operations, Water Division, Ref. K and References, Ref. K.

<sup>47</sup> Miscellaneous Exp. Adjustment:  $(\$948) + (\$1,732) + (\$481) + (\$674) = (\$3,835)$ .

	Test-Year Expense			Allocate		Allocation Adjustments	
	Water Division	Sewer Division	Total	77.83%	22.17%	Operating Exp. Accounts Water Division	Water Division
				Water Division	Sewer Division		
Salaries and Wages - Commissioners	\$ 8,100		\$ 8,100	\$ 6,304	\$ 1,796	Salaries and Wages - Com.	\$ (1,796)
Purchased Power Office	4,275		4,275	3,327	948	Misc. Exp.	(948)
Materials and Supplies, Office	16,350	\$ 2,432	18,782	14,618	4,164	Misc. Exp.	(1,732)
Accounting - Audit	20,877		20,877	16,249	4,628	Contractual Services - Acc.	(4,628)
Dues and Subscriptions	2,169		2,169	1,688	481	Misc. Exp.	(481)
Transportation	4,494	334	4,828	3,758	1,070	Transportation Exp.	(736)
Continuing Education	3,041		3,041	2,367	674	Misc. Exp.	(674)
Depreciation on Shared Assets	1,185		1,185	922	263	Depreciation Exp.	(263)
Total	<u>\$ 60,491</u>	<u>\$ 2,766</u>	<u>\$ 63,257</u>	49,233	14,024		<u>\$ (11,258)</u>
Less: Test-Year				(60,491)	(2,766)		
Adjustment				<u>\$ (11,258)</u>	<u>\$ 11,258</u>		

(F) Employee Pensions and Benefits. Garrison District explained that it had allocated 100 percent of the Employee Pensions and Benefits expenses to the water division.<sup>48</sup> Garrison District reduced Employee Pension and Benefits expense of \$77,825 by \$16,763 to allocate a portion of this expense to the sewer division based on the actual labor expenses reported in each division.<sup>49</sup>

Garrison District participates in the County Employee Retirement System (CERS). Rather than provide to its employees a paid health insurance benefit, Garrison District gives each employee \$300 per month to go toward the purchase of their own health insurance.<sup>50</sup> The water district improperly reported all test year CERS contributions and health insurance payments as expenses of the water division. To correct this accounting error, Staff split the pro forma CERS contributions of \$59,542<sup>51</sup> and health insurance

<sup>48</sup> Application, Attachment 4, References, Ref. G.

<sup>49</sup> *Id.*, Schedule of Adjusted Operations, Water Division, Ref. G and References, Ref. G.

<sup>50</sup> Garrison District's Responses to Staff's First Request (filed April 18, 2021), Item 16.

<sup>51</sup> \$220,936 (Total Pro Forma Employee Salaries and Wages) x 26.95% (CERS Contribution Rate) = \$59,542.

payments of \$21,600<sup>52</sup> between the divisions using the final wage allocation factors. This requires an adjustment to Employee Pensions and Benefits expense for the water division of \$25,724 as shown below.

	Pro Forma	Allocated To	
		Water Division 64.21%	Sewer Division 35.79%
CERS and Emp. Health Insurance	\$ 81,142	\$ 52,101	\$ 29,041
Less: Reported Em. Pensions and Benefits		(77,825)	0
Pro Forma Adjustments		\$ (25,724)	\$ 29,041

(G) Excess Water Loss. Commission regulation 807 KAR 5:066, Section 6(3)<sup>53</sup> limits water loss to 15 percent for ratemaking purposes unless the Commission finds an alternative level reasonable. Garrison District reported a test-year water loss of 38.787 percent, or 23.787 percentage points above the 15 percent allowable limit.<sup>54</sup> To eliminate the cost to purchase, produce and pump water over the 15 percent allowable limit, Garrison District proposes to decrease Purchased Water expense, Purchased Power expense and Chemical expense by \$10,111, \$8,746, and \$3,260 respectively.<sup>55</sup> Staff finds that Garrison District’s proposal to eliminate the costs associated with

<sup>52</sup> \$300 (Employer Health Insurance Contribution) x 6 (Number of Employees) = \$1,800 x 12-Months = \$21,600.

<sup>53</sup> “Unaccounted-for water loss. Except for purchased water rate adjustments for water districts and water associations, and rate adjustments pursuant to KRS 278.023(4), for rate making purposes a utility’s unaccounted-for water loss shall not exceed fifteen (15) percent of total water produced and purchased, excluding water used by a utility in its own operations. Upon application by a utility in a rate case filing or by separate filing, or upon motion by the commission, an alternative level of reasonable unaccounted-for water loss may be established by the commission. A utility proposing an alternative level shall have the burden of demonstrating that the alternative level is more reasonable than the level prescribed in this section.”

<sup>54</sup> 2019 Water Division Annual Report at 72.

<sup>55</sup> Application, Attachment 5, Schedule of Adjusted Operations Ref. F and References, Ref. F.

excessive water loss conforms to the Commission's current practice and, therefore, is accepting Garrison District's adjustments to purchased power expense and chemical expense.

Garrison District requests a Water Loss Reduction Surcharge of \$1.73 per customer per month to help lower system losses to more acceptable levels. As calculated above, adjustments to Purchased Water expense, Purchased Power expense and Chemical expense amount to \$22,117 and this amount should be collected and set aside as a surcharge fund. The use of a surcharge is consistent with prior Commission action in cases involving water districts with excessive unaccounted-for water loss. In establishing water-loss surcharges, the Commission recognized that the adjustments required to be made to comply with the 15 percent line-loss limitation in 807 KAR 5:066, Section 6(3), could severely restrict cash flow and could impair a water district's ability to take the necessary action to focus on its leak detection and repair. Using a surcharge to fund a water district's water loss reduction project allows the Commission to place strict controls governing the surcharge proceeds to ensure their effective use, public acceptance of the surcharge, and public confidence in the water district's use of those funds. In its report entitled, "Confronting the Problems Plaguing Kentucky's Water Utilities: An Investigative Report by the Kentucky Public Service Commission November 2019" that was fully incorporated in the final Order in Case No. 2019-00041, Appendix L, the Commission recommended more frequent rate cases and pursuing qualified infrastructure improvement surcharges, the proceeds of which will be devoted exclusively to infrastructure improvement and replacement.

Garrison District should develop and submit a qualified infrastructure improvement plan in furtherance of the recommendations from Case No. 2019-00041 to be approved by the Commission and use the surcharge funds to further reduce its water loss as part of that plan. A monthly surcharge is a reasonable means for Garrison District to recover the cost of an infrastructure improvement and water leak detection program in order to reduce the increased expense and lost revenue from unaccounted-for water loss. Garrison District should assess a monthly water loss reduction surcharge of \$1.73 per active meter over 48 months. Garrison District should be permitted to assess a surcharge to fund its unaccounted-for water loss reduction efforts to comply with the Commission's final Order in Case No. 2019-00041. Garrison District should be restricted to expending any funds collected under the surcharge subject to authorization by the Commission. Garrison District should file a qualified infrastructure improvement plan, including a comprehensive unaccounted-for water loss reduction plan that establishes priorities, a time schedule for eliminating each source of unaccounted-for water loss, and provides a detailed spending plan for the proceeds of the requested surcharge.

(H) Insurance — General Liability. Garrison District incurred \$10,216 for test-year general liability insurance expense that was reported entirely by the water division. The test-year amount should be allocated between the divisions. Because general liability insurance premiums are generally dependent on the level of an entity's annual revenues, Staff allocated the test-year amount based on each division's pro forma present rate revenues as determined by Staff. Staff's calculations are shown below.

	Totals	Water Division	Sewer Division
Operating Revenue	\$ 698,416	\$ 542,296	\$ 156,120
Interest Income	5,260	5,260	
Surcharge Revenue	22,944	22,944	
Total Revenue by Division	<u>\$ 726,620</u>	<u>\$ 570,500</u>	<u>\$ 156,120</u>
Percent of Total	<u>100.00%</u>	<u>78.51%</u>	<u>21.49%</u>
Allocated General Liability	<u>\$ 10,216</u>	\$ 8,021	\$ 2,195
Less: Test Year		<u>(10,216)</u>	<u>-</u>
Adjustment		<u>\$ (2,195)</u>	<u>\$ 2,195</u>

(I) Insurance — Workers' Compensation. Garrison District incurred \$4,028 for test-year workers' compensation insurance that was reported entirely by the water division. As shown below, Staff allocated the test-year between the divisions based on Staff's pro forma employee wage expense allocations.

	Test Year	Water Division	Sewer Division
Pro Forma Employee Wages Expense	<u>\$ 220,936</u>	<u>\$ 141,866</u>	<u>\$ 79,070</u>
Percent of Total	<u>100.00%</u>	<u>64.21%</u>	<u>35.79%</u>
Allocated Workers' Compensation	\$ 4,028	\$ 2,586	\$ 1,442
Less: Test Year		<u>(4,028)</u>	<u>-</u>
Adjustment		<u>\$ (1,442)</u>	<u>\$ 1,442</u>

(J) CERS Liability. Due to General Accounting Standards Board reporting requirements for retirement liabilities, Garrison District recorded the CERS liability of \$81,060 in the Miscellaneous expense account.<sup>56</sup> Garrison District is proposing to reduce

<sup>56</sup> *Id.*, References, Ref. J.

Miscellaneous expense by \$81,060 to remove the CERS liability.<sup>57</sup> Upon its review of Garrison District's 2019 General Ledger, Staff finds that Garrison District's adjustment is correct and has reduced Miscellaneous expense by \$81,060. The test-year employer contributions into the CERS is included in the expense account Employee Pensions and Benefit expense.

(K) Depreciation. In its application, Garrison District proposed to increase its test-year depreciation expense of \$101,105 by \$12,913.<sup>58</sup> Garrison District explains that adjustments to the sewer division depreciation lives are based on the Commission requirement for adjustments to a water utility's depreciation expense when asset lives fall outside the ranges recommended by the National Association of Regulatory Utility Commissioners (NARUC) in its publication titled *Depreciation Practices for Small Utilities* (NARUC Study) published in 1979.<sup>59</sup> Garrison District proposed to increase depreciation expense to bring asset lives to the midpoint of those recommended ranges.<sup>60</sup>

To evaluate the reasonableness of the depreciation practices of small water utilities, the Commission has historically relied upon the NARUC Study. When no evidence exists to support a specific life that is inside or outside the NARUC Study ranges, the Commission has historically used the midpoint of the NARUC Study ranges to depreciate a utility plant.

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<sup>57</sup> *Id.*

<sup>58</sup> *Id.*, Schedule of Adjusted Operations, Water Division, Ref. L and References, Ref. L.

<sup>59</sup> *Id.*, References, Ref. L.

<sup>60</sup> *Id.*

Upon its review of Garrison District's depreciation schedule, Staff determined that Garrison District's adjusted depreciation lives are at the midpoint of the NARUC Study range for each asset category. However, Staff is increasing Garrison District's depreciation adjustment of \$12,913 by \$211<sup>61</sup> to reflect the impact of the increased tap-on fees.

(L) Payroll Tax. Garrison District explained that it had allocated 100 percent of the Payroll Tax expense to the water division.<sup>62</sup> Garrison District reduced Taxes Other than Income Tax expense of \$20,083 by \$4,326 to allocate a portion of this expense to the sewer division based on the actual labor expenses reported in each division.<sup>63</sup> Garrison District also increased payroll taxes by \$53 to reflect the impact its Salaries and Wage expense adjustment has on the FICA expense.<sup>64</sup> Staff is reducing Taxes Other Than Income Tax expense of Garrison District's water division by \$9,230 as calculated below.

	Water Division
Pro Forma Salaries & Wages - Employees	\$ 141,868
Multiplied by: FICA Rate	<u>7.65%</u>
Pro Forma Payroll Tax Expense	10,853
Less: Reported Payroll Tax Expense	<u>(20,083)</u>
Pro Forma Adjustment	<u>\$ (9,230)</u>

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<sup>61</sup> \$13,250 (Pro Forma Tap-on Fees) - \$4,800 (Tap-on Fees Test Year) = \$8,450 ÷ 40 (Years) = \$211.

<sup>62</sup> Application, Attachment 4, References, Ref. G.

<sup>63</sup> *Id.*, Schedule of Adjusted Operations, Water Division, Ref. G and References, Ref. G.

<sup>64</sup> *Id.*, Schedule of Adjusted Operations, Water Division, Ref. F and References, Ref. F.

Sewer Division

The Pro Forma Operating Statement for the test year ended December 31, 2019, as determined by Staff, appears below for Garrison District's sewer division.

	Test Year Operations	Staff Pro Forma Adjustments	(Ref.)	Staff Pro Forma Operations
<b>Operating Revenues</b>				
Sewer Service	\$ 141,531	\$ (5,209)	A.	
		12,924	B.	149,246
Other Sewer Revenues		6,874	A.	6,874
<b>Total Operating Revenues</b>	<b>141,531</b>	<b>14,589</b>		<b>156,120</b>
<b>Operating Expenses</b>				
<b>Operation and Maintenance Expenses</b>				
Collection - Labor, Materials & Expenses	52,692	79,068	C.	131,760
Tap-on (labor & Materials)		(4,725)	D.	(4,725)
Salaries and Wages - Commissioners		1,796	E.	1,796
Employee Pensions and Benefits		29,041	F.	29,041
Purchased Power for Pumping	21,892			21,892
Contractual Services		4,628	E.	4,628
Treatment & Disposal	32,376			32,376
Maintenance Treatment & Disposal	2,022			2,022
Transportation Expenses		736	E.	736
Insurance - General Liability & Other		2,195	G.	2,195
Insurance - Workers Compensation		1,442	H.	1,442
Office Supplies & Other Expenses	2,432			
Purchased Power Office		948	E.	
Materials and Supplies, Office		1,732	E.	
Dues and Subscriptions		481	E.	
Continuing Education		674	E.	6,267
<b>Total Operation and Maintenance Expenses</b>	<b>111,414</b>	<b>114,181</b>		<b>229,430</b>
Depreciation	77,202	38,885	I.	
		263	E.	116,350
Taxes Other Than Income		6,049	J.	6,049
<b>Total Operating Expenses</b>	<b>188,616</b>	<b>159,378</b>		<b>351,829</b>
<b>Income Available to Service Debt</b>	<b>\$ (47,085)</b>	<b>\$ (144,789)</b>		<b>\$ (195,709)</b>

(A) Other Sewer Revenues. In its application, Garrison District reported no Other Sewer Revenues except an adjustment increase of \$660, which had been

subtracted from Metered Water Sales. Staff requested nonrecurring charge cost justification sheets from Garrison District for all fees collected from sewer utility customers. Garrison District provided the information requested,<sup>65</sup> and Staff determined that Other Sewer Revenues equaled \$6,874, which is composed of Late Payment fees of \$6,566 and Connection Charges of \$308. The adjustments to the nonrecurring charges results in an increase to the revenue requirement of \$6,874 as shown in the Table.<sup>66</sup>

	Number of Occurrences	Garrison District Test Year	Pro Forma Adjustments	Pro Forma
Forfeited Discounts:				
Late Payment Penalties	938	\$ 4,417	\$ 2,149	\$ 6,566
Miscellaneous Service Revenues:				
Connection Charges	44	792	(484)	308
Total Other Operating Revenues		<u>\$ 5,209</u>	<u>\$ 1,665</u>	<u>\$ 6,874</u>

(B) Billing Analysis Adjustment. Garrison District charges rates for sewer based on the water consumption of its customers. Garrison District provided a billing analysis for the 12-month test year in its application. Staff’s billing analysis for Garrison District produces \$149,246 of revenues from all sewer customers and is an accurate representation of the normalized test-year revenue from water sales. Accordingly, Staff is increasing Operating Revenues from Sewer service by \$12,924.

(C) Employee Salaries and Wages. In the test-year, Garrison District reported Employee Salaries and Wages expense of \$52,692 for its sewer division. As shown

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<sup>65</sup> Response to Staff’s Third Request for Information, (filed June 8, 2021), Item 2.

<sup>66</sup> *Id.*

below, Staff is allocating 35.79 percent or \$79,068 of total pro forma Salaries and Wages expense of \$220,936 to the sewer division resulting in an increase of \$26,378.<sup>67</sup>

	Pro Forma	Allocated To	
		Water Division	Sewer Division
Office Employees:			
#3 Secretary	\$ 27,498	\$ 21,402	\$ 6,096
#5 Accounting	40,296	31,362	8,934
Field Employees:			
#2 Operator	31,903	17,106	14,797
#6 Operator	27,060	14,510	12,550
#10 Operator	28,181	15,111	13,070
Total Office & Field Employees	154,938	99,491	55,447
General Manager	65,998	42,377	23,621
Pro Forma Employees Salaries	\$ 220,936	\$ 141,868	\$ 79,068
Allocation Percentages	100.00%	64.21%	35.79%

(D) Tap-on Fees. Garrison District noted that during the test year, labor and materials costs for new sewer taps were recorded as operating expenses.<sup>68</sup> Garrison District explained that these expenditures are considered capital improvements that should have been depreciated rather than expensed.<sup>69</sup> According to Garrison District, the \$6,200 it collected in sewer tap fees can be substituted for the actual costs it incurred.<sup>70</sup> Garrison District proposed to reduce Employee Salaries and Wages expense by \$1,860, which is 30 percent of the total tap-on fees collected and to reduce Materials and Supplies expense by \$4,340 the remaining 70 percent.<sup>71</sup>

<sup>67</sup> \$79,070 (Staff Allocated Salaries and Wages expense) - \$52,692 (Test Year Salaries and Wages expense) = \$26,378.

<sup>68</sup> Application, Attachment 4, References, Ref. E.

<sup>69</sup> *Id.*

<sup>70</sup> *Id.*

<sup>71</sup> *Id.*, Schedule of Adjusted Operations, Sewer Division, Ref. E and References, Ref. E.

Garrison District provided Cost Justification sheet supporting a sewer tap fee of \$4,725. Based upon the Cost Justification sheets Staff decreased Garrison District's sewer tap fee from \$6,200 to \$4,725 to reflect the current cost of installing a new sewer tap.<sup>72</sup> Staff is reducing the sewer division's operating expenses by the \$4,725.

(E) Allocation of Shared Expenses. Staff allocated the shared expenses between the two division based on the number of customer allocation factor. The sewer division's operating expenses have been increased by \$11,258 as shown below.<sup>73</sup>

	Test-Year Expense			Allocate		Allocation Adjustments	
	Water	Sewer	Total	77.83%	22.17%	Operating Exp. Accounts Sewer Division	Sewer Division
	Division	Division		Water Division	Sewer Division		
Salaries and Wages - Commissioners	\$ 8,100		\$ 8,100	\$ 6,304	\$ 1,796	Salaries and Wages - Com.	\$ 1,796
Purchased Power Office	4,275		4,275	3,327	948	Office Supplies and Other Exp.	948
Materials and Supplies, Office	16,350	\$ 2,432	18,782	14,618	4,164	Office Supplies and Other Exp.	1,732
Accounting - Audit	20,877		20,877	16,249	4,628	Contractual Services	4,628
Dues and Subscriptions	2,169		2,169	1,688	481	Office Supplies and Other Exp.	481
Transportation	4,494	334	4,828	3,758	1,070	Transportation Exp.	736
Continuing Education	3,041		3,041	2,367	674	Office Supplies and Other Exp.	674
Depreciation on Shared Assets	1,185		1,185	922	263	Depreciation Exp.	263
Total	<u>\$ 60,491</u>	<u>\$ 2,766</u>	<u>\$ 63,257</u>	49,233	14,024		<u>\$ 11,258</u>
Less: Test-Year				(60,491)	(2,766)		
Adjustment				<u>\$ (11,258)</u>	<u>\$ 11,258</u>		

(F) Employee Pensions and Benefits. Garrison District proposed to increase the sewer division's operating expenses by \$16,763 to allocate a portion of this expense to the sewer division based on the actual labor expenses reported by each division.<sup>74</sup>

<sup>72</sup> Responses to Staff's Third Request, Item 2.1.

<sup>73</sup> Miscellaneous Exp. Adjustment: \$948 + \$1,732 + \$481 + \$674 = \$3,835.

<sup>74</sup> Application, Attachment 4, References, Ref. G.

Staff allocated the pro forma Pension and Benefit expense between the two divisions using the final wage allocation factors. This requires an adjustment to the sewer division's operating expense of \$29,041 as shown below.

	Pro Forma	Allocated To	
		Water Division 64.21%	Sewer Division 35.79%
CERS and Emp. Health Insurance	\$ 81,142	\$ 52,101	\$ 29,041
Less: Reported Em. Pensions and Benefits		(77,825)	0
Pro Forma Adjustments		<u>\$ (25,724)</u>	<u>\$ 29,041</u>

(G) Insurance — General Liability. As shown below, Staff allocated the test-year Insurance – General Liability expense between the two divisions resulting in an increase to the sewer division's operating expenses of \$2,195.

	Totals	Water Division	Sewer Division
Operating Revenue	\$ 698,416	\$ 542,296	\$ 156,120
Interest Income	5,260	5,260	
Surcharge Revenue	22,944	22,944	
Total Revenue by Division	<u>\$ 726,620</u>	<u>\$ 570,500</u>	<u>\$ 156,120</u>
Percent of Total	<u>100.00%</u>	<u>78.51%</u>	<u>21.49%</u>
Allocated General Liability	<u>\$ 10,216</u>	\$ 8,021	\$ 2,195
Less: Test Year		(10,216)	-
Adjustment		<u>\$ (2,195)</u>	<u>\$ 2,195</u>

(H) Insurance — Workers' Compensation. As shown below, Staff allocated the test-year Insurance – Workers Compensation expense between the two divisions resulting in an increase to the sewer division's operating expenses of \$1,442.

	Test Year	Water Division	Sewer Division
Pro Forma Employee Wages Expense	<u>\$ 220,936</u>	<u>\$ 141,866</u>	<u>\$ 79,070</u>
Percent of Total	<u>100.00%</u>	<u>64.21%</u>	<u>35.79%</u>
Allocated Workers' Compensation	\$ 4,028	\$ 2,586	\$ 1,442
Less: Test Year		<u>(4,028)</u>	<u>-</u>
Adjustment		<u>\$ (1,442)</u>	<u>\$ 1,442</u>

(I) Depreciation. In its application, Garrison District proposes to increase its test-year depreciation expense of \$77,202 by \$38,885.<sup>75</sup> Garrison District explains that the Commission requires adjustments to a sewer utility's depreciation expense when asset lives fall outside the ranges recommended by the *O&M Guide for the Support of Rural Water-Wastewater Systems* by the Commission for Rural Water (Commission for Rural Water O&M Guide).<sup>76</sup> Garrison District's adjustments to the sewer depreciation schedule are based on this publication.<sup>77</sup>

Upon its review of Garrison District's depreciation schedule, Staff determined that Garrison District's adjusted depreciation lives reflect the lives recommended in the Commission for Rural Water O&M Guide. Staff is accepting Garrison District's Depreciation expense adjustment of \$38,885.

(J) Payroll Tax. Garrison District explained that it had allocated 100 percent of the Payroll Tax expense to the water division.<sup>78</sup> Garrison District increased Taxes Other

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<sup>75</sup> *Id.*, Schedule of Adjusted Operations, Water Division, Ref. L and References, Ref. L.

<sup>76</sup> *Id.*, References, Ref. L.

<sup>77</sup> *Id.*

<sup>78</sup> Application, Attachment 4, References, Ref. G.

than Income Tax expense by \$4,326 to allocate a portion of this expense to the sewer division based on the actual labor expenses reported in each division.<sup>79</sup> Garrison District also increased payroll taxes by \$15 to reflect the impact its Salaries and Wage expense adjustment has on the FICA expense.<sup>80</sup> Staff is increasing the Taxes Other Than Income Tax expense of Garrison District's sewer division by \$6,049 as calculated below.

	<u>Sewer Division</u>
Pro Forma Salaries & Wages - Employees	\$ 79,068
Multiplied by: FICA Rate	<u>7.65%</u>
Pro Forma Payroll Tax Expense	6,049
Less: Reported Payroll Tax Expense	<u>0</u>
Pro Forma Adjustment	<u><u>\$ 6,049</u></u>

### REVENUE REQUIREMENT

#### Water Division

The Commission has historically applied a DSC method to calculate the revenue requirement of water districts and water associations.<sup>81</sup> This method allows for recovery of (1) cash-related pro forma operating expenses; (2) recovery of depreciation expense, a non-cash item, to provide working capital; (3) the average annual principal and interest payments on all long-term debts; and (4) working capital that is in addition to depreciation expense.

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<sup>79</sup> *Id.*, Schedule of Adjusted Operations, Sewer Division, Ref. G and References, Ref. G.

<sup>80</sup> *Id.*, Schedule of Adjusted Operations, Sewer Division, Ref. F and References, Ref. F.

<sup>81</sup> See Case No. 2019-00424, *Electronic Application of Grant County Sanitary Sewer District for an Alternate Rate Adjustment* (Ky. PSC May 6, 2020); see also Case No. 2019-00268, *Application of Knott County Water and Sewer District for an Alternative Rate Adjustment* (Ky. PSC Jan. 31, 2020).

A comparison of Garrison District's and Staff's calculations of the revenue requirement and required revenue increase using the DSC method is shown below:

	Garrison District	Staff
Pro Forma Operating Expenses	\$ 577,747	\$ 482,282
Application Error	(15,810)	
Plus: Average Annual Debt Service	91,852	91,852
Debt Service Coverage Requirement	<u>18,370</u>	<u>18,370</u>
Overall Revenue Requirement	672,159	592,504
Less: Forfeited Discounts	(14,707)	(19,670)
Miscellaneous Service Revenues	(5,242)	(3,260)
Other Water Revenues	(8,203)	
Other Income - Phase II & III Surcharges	(22,944)	(22,944)
Interest Income	<u>(5,261)</u>	<u>(5,260)</u>
Revenue Required from Water Sales	615,802	541,370
Less: Normalized Revenues from Water Sales	<u>(519,535)</u>	<u>(519,366)</u>
Required Revenue Increase/(Decrease)	<u>\$ 96,267</u>	<u>\$ 22,004</u>
Percentage Increase	<u>18.53%</u>	<u>4.24%</u>

Average Annual Principal and Interest Payments. In calculating its revenue requirement, Garrison District used an average annual debt service of \$91,852 and a 0.2 DSC of \$18,370.<sup>82</sup> Upon its review of Garrison District's bond and loan amortization schedules, Staff determined that the average annual debt service and DSC coverage calculated by Garrison District are correct and, therefore, Staff is using those in its calculation of the revenue requirement.

#### Sewer Division

Garrison District proposes to use the DSC methodology to calculate the revenue requirement for its sewer division. A comparison of Garrison District's and Staff's

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<sup>82</sup> Application, Attachment 5, Table B, Debt Service Schedule.

calculations of the revenue requirement and required revenue increase using the DSC method is shown below:

	Garrison District	Staff
Pro Forma Operating Expenses	\$ 245,958	\$ 299,137
Application Error		
Plus: Average Annual Debt Service	30,849	30,849
Debt Service Coverage Requirement	<u>6,170</u>	<u>6,170</u>
Overall Revenue Requirement	282,977	336,156
Less: Other Operating Revenues	<u>(660)</u>	<u>(6,874)</u>
Revenue Required from Water Sales	282,317	329,282
Less: Normalized Revenues from Water Sales	(149,246)	(149,246)
Error - Other Sewer Revenues	<u>(660)</u>	<u></u>
Required Revenue Increase/(Decrease)	<u>\$ 132,411</u>	<u>\$ 180,036</u>
Percentage Increase	<u>88.33%</u>	<u>120.63%</u>

Average Annual Principal and Interest Payments. In calculating its revenue requirement, Garrison District used an average annual debt service of \$30,849 and a 0.2 DSC of \$6,170.<sup>83</sup> Upon its review of Garrison District's bond and loan amortization schedules, Staff determined that the average annual debt service and DSC coverage calculated by Garrison District are correct and, therefore, Staff is using those in its calculation of the revenue requirement.

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<sup>83</sup> Application, Attachment 5, Table B, Debt Service Schedule.

Signatures:

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Prepared by: Mark Frost  
Revenue Requirements Branch  
Division of Financial Analysis

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Prepared by: Liz Stefanski  
Rate Design Branch  
Division of Financial Analysis

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Prepared by: Eddie Beavers  
Rate Design Branch  
Division of Financial Analysis

APPENDIX A

APPENDIX TO A STAFF REPORT OF THE KENTUCKY PUBLIC SERVICE  
COMMISSION IN CASE NO. 2021-00094 DATED JUL 13 2021

Monthly Water Rates

5/8- x 3/4-Inch Meter

First 2,000 Gallons	\$21.42	Minimum Bill
Next 3,000 Gallons	0.00841	Per Gallon
Next 5,000 Gallons	0.00703	Per Gallon
All Over 10,000 Gallons	0.00556	Per Gallon

1-Inch Meter

First 10,000 Gallons	\$81.80	Minimum Bill
All Over 10,000 Gallons	0.00556	Per Gallon

2-Inch Meter

First 10,000 Gallons	\$304.20	Minimum Bill
All Over 10,000 Gallons	0.00566	Per Gallon

Bulk Sales	0.00907	Per Gallon
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<u>Monthly Water Loss Reduction Surcharge</u>	\$ 1.73	<u>Per Customer</u>
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Water Nonrecurring Charges

Connection Charges	\$ 11.00
Connection Charges After Hours	\$ 41.00
Field Collection Charge	\$ 11.00
Late Payment Penalty	\$ 7.00
Meter Test Charge	\$ 36.00
Reconnection Charge	\$ 22.00
Reconnection Charge After Hours	\$ 52.00
Seasonal Reconnection Charge	\$ 11.00
Returned Checks Charge	\$ 23.00
Service Call Charge	\$ 11.00
Service Call Charge After Hours	\$ 441.00
Tap-On Fee	\$ 1,325.00

APPENDIX B

APPENDIX TO A STAFF REPORT OF THE KENTUCKY PUBLIC SERVICE  
COMMISSION IN CASE NO. 2021-00094 DATED JUL 13 2021

Monthly Sewer Rates

5/8- x 3/4-Inch Meter

First 2,000 Gallons	\$48.54	Minimum Bill
Over 2,000 Gallons	0.02427	Per Gallon

Sewer Nonrecurring Charges

Connection Charge	\$7.00
Connection Charge After Hours	38.00
Field Collection Charge	6.00
Late Payment Penalty	7.00
Reconnection Charge	10.00
Reconnection Charge After Hours	41.00
Seasonal Reconnection Charge	11.00
Returned Checks Charge	23.00
Service Call Charge	7.00
Service Call Charge After Hours	38.00
Tap Fee	4,725.00

\*Alan Vilines  
Kentucky Rural Water Association  
Post Office Box 1424  
1151 Old Porter Pike  
Bowling Green, KENTUCKY 42102-1424

\*Garrison-Quincy-Ky-O-Heights Water District  
279 Robins Lane  
P. O. Box 279  
Garrison, KY 41141

\*Trent Underwood  
Garrison-Quincy-Ky-O-Heights Water District  
279 Robins Lane  
P. O. Box 279  
Garrison, KY 41141